

SECTION 1.4 OPPORTUNITY COST

This section explores the concept of opportunity cost, a concept that arises from the existence of scarcity.

- · We are all faced with scarcity and, as a consequence, must make choices. The value of the highest or best foregone opportunity resulting from making a choice is the **opportunity cost** of that choice.
- The money price of a good is the money required to purchase the good. The opportunity (or economic) cost of the good includes all opportunity costs of acquiring the good. The opportunity cost of buying groceries includes the money cost but also the value of time spent shopping.
- · The expression “*there’s no such thing as a free lunch*” clarifies the relationship between scarcity and opportunity cost. Although a lunch may be free to you, the scarce resources that were used to create that lunch could have been put to alternate uses. Therefore, even a free lunch has an opportunity cost.